

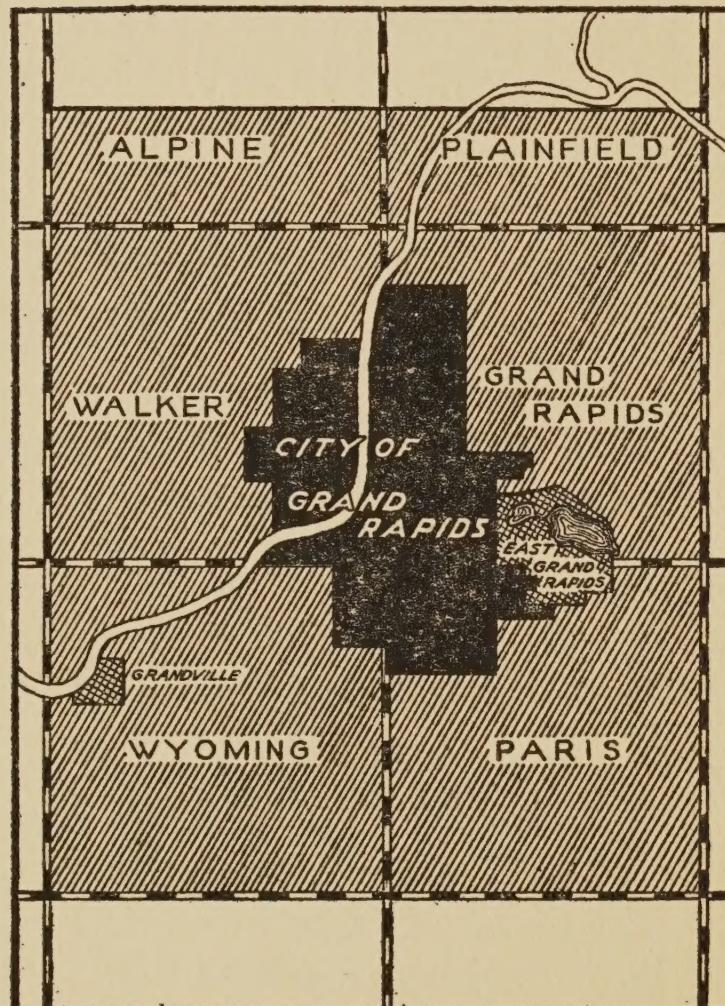
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Commodity Information Series
Milk Leaflet No. 4

Re
THE
GRAND RAPIDS
MILK LICENSE

HOW IT OPERATES



The Grand Rapids Milk Sales Area

LICENSE No. 69

Agricultural Adjustment Administration

APRIL 1935

THE GRAND RAPIDS MILK LICENSE

DAIRY interests of Grand Rapids have requested and received a Federal milk license under the Agricultural Adjustment Act.¹

Similar licenses have been instituted and are now in operation for the sales areas of Kalamazoo, Muskegon, Battle Creek, and Ann Arbor, as well as Detroit. The description of the Grand Rapids milk license contained herein is suitable to explain the general form and purpose of the existing licenses for Kalamazoo, Muskegon, Battle Creek, and Ann Arbor, while a separate circular has been issued for the Detroit milk license.

The license consists of a series of regulations, established by the Secretary of Agriculture, to govern the marketing of milk. These regulations have the effect of law.

Designed to stabilize market conditions, the license sets minimum prices to be paid producers by distributors, gives each producer an equal share of the market, and insures that all distributors will pay the same price for milk according to the use they make of it.

Grand Rapids is the largest interior milk market of Michigan, receiving an average volume of about 25,000 gallons daily.

Associations of milk producers and individual pasteurizing companies were consulted before the license was drafted by the Agricultural Adjustment Administration, and it was the subject of a hearing at Grand Rapids, Mich., on May 16, 1934. Similar hearings in the series were conducted for the licenses in effect at Kalamazoo, Muskegon, Battle Creek, and Ann Arbor.

¹ License No. 69, effective July 1, 1934; amendments effective Nov. 5, 1934, and Dec. 4, 1934.

Milk producers are not licensed. Only distributing agencies buying and selling or handling milk in the sales area defined in the license are subject to the license directly.

The license is administered by a Market Administrator, appointed by the Secretary of Agriculture. His office is in room 454, Michigan Trust Building, Grand Rapids. The licensed areas of Kalamazoo, Muskegon, Battle Creek, and Ann Arbor are also in charge of the same Market Administrator.

The Sales Area Defined

The sales area is defined as follows:

The territory within the corporate limits of the cities of Grand Rapids and Comstock Park and the territory within Walker, Grand Rapids, Wyoming and Paris Townships, sections 25 to 36, inclusive of Alpine Township, sections 25 to 36, inclusive of Plainfield Township, all in Kent County, Mich.

No production zone is defined. The area from which milk may be obtained is subject only to local health regulations.

What the License Does Not Attempt

The license does not set up resale prices to be charged consumers for milk.

It does not require producers, against their will, to sell milk to anyone, or deny them a fair market, or prevent them from selling milk at a premium above license prices.

It does not oblige distributors to buy milk from certain producers or groups of producers.

It does not supplant cooperative producers' associations.

It has nothing to do with labor conditions, rates of pay for labor, the regulation of farm and milk-plant management, or distributing margins. It does not prescribe any health ordinances or regulations.

What the License Seeks to Accomplish

The license is designed to secure several important objectives.

1. To maintain the income of milk producers at as high a point as may be justified by current supply and demand conditions on the market

The license establishes minimum prices payable to producers by distributors who buy their milk. These prices at the time this circular is printed (April 1935) are scheduled on a classified-use basis, f. o. b. Grand Rapids, per 100 pounds of 3.5 percent milk, as follows:

- Class I milk, used for direct consumption—\$2.10.
- Class II milk, used for cream—Three and one-half times the average wholesale price per pound of Chicago 92 score butter, plus 35 cents.
- Class III milk, used for all other purposes—Three and one-half times the average wholesale price per pound of Chicago 92 score butter, plus 15 percent.

The prices are established on a 3.5-percent butterfat test, and distributors are obliged to pay or deduct 4 cents per hundredweight of milk for each one-tenth of 1 percent butterfat above or below 3.5 percent.

2. To give each producer an equitable share of the market and to equalize among producers the burden of carrying surplus milk not in demand for direct consumption and therefore low in value

Bases or shares of the total deliveries sold on the market as fluid milk or cream at the higher prices are allocated to all producers by the Market Administrator. These bases are calculated on the volume of past deliveries by producers as shown by available records. The base of an individual producer is his proportion of the total fluid milk and cream sales on the market as established by his deliveries during a certain period of the year determined by the Market Administrator.

For example: Suppose class I and class II sales during the specified period total 40,000 hundredweight per day and that total deliveries by producers are 50,000 hundredweight.

Suppose the individual producer delivers 5 hundredweight per day during this same period. His individual base is then four-fifths of his deliveries, or 4 hundredweight.

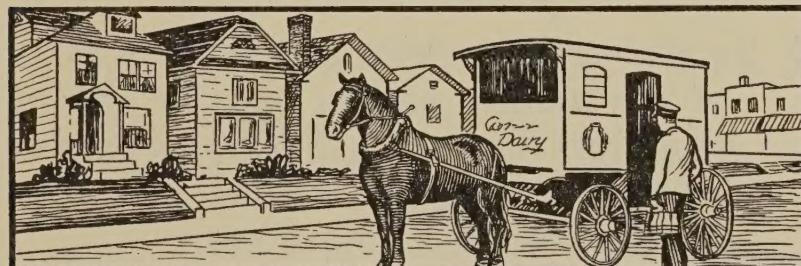
The system of computing the base may be adjusted to suit market conditions.

A producer receives one price (the blended price described below under point no. 3) for his base milk and a lower price named in the license for all milk he delivers in excess of his base.

3. To insure that producers receive full value for their milk according to the classes in which it is sold

All distributors are required to report their total purchases and their sales by classes. Milk delivered by producers is classified as base and excess milk for purposes of payment to producers, and milk sold or used by distributors is classified as class I, class II, and class III for purposes of computing the total amounts to be paid by distributors.

The total of base and excess equals the total of class I, class II, and class III. It should be understood that the amount of



base milk the farmers deliver may be more or less than the amount of milk actually sold by distributors as fluid milk and cream.

But the total amount of money paid producers by one distributor may be less than the total amount of money he should pay for his milk according to the classes in which he used it. In such a case the distributor pays the difference into an adjustment fund operated by the Market Administrator. In case the total amount paid producers by another distributor is greater than the actual amount he should pay for his milk according to its use, he would draw the difference out of the adjustment fund.

This plan of equalization makes it possible to pay all producers the same base and excess prices, regardless of how much or how little base or excess milk any producers may deliver to certain distributors. It also tends to maintain equal competitive conditions as among all distributors.

At the end of the month the Market Administrator, from the reports of distributors, computes the price to be paid for base milk.

This is how he computes that price:

From the distributors' reports he first calculates on the basis of use, at the prices stated in the license, the total value of all milk delivered by all producers and used in all classes.

To determine the value of all the base milk delivered, the Market Administrator calculates the value, at the class III price specified in the license, of all milk delivered by all producers in excess of their bases, and subtracts this figure from the total value of all milk delivered by all producers. The remainder is the amount to be paid for base milk.

Deductions from the total valuation may also be made for milk delivered to dealers by producer-distributors, but in practice these deductions are so small as to have little effect on the final result.

The next step is to get the price per hundredweight payable to producers for their base milk. To do this, the Market Administrator divides the total amount available to pay for base milk, by the number of hundredweight of delivered base milk.

An example helps to explain.

Suppose 60,000 hundredweight of milk has been delivered by producers to distributors in 1 month. Suppose it is sold by distributors as follows:

Class I milk, for fluid purposes, 37,500 hundredweight, value under the license, \$2.10 per hundredweight, or \$78,750.

Class II milk, for fluid cream, 7,500 hundredweight, value under the license on the Chicago butter market, say \$1.45 per hundredweight, or \$10,875.

Class III milk, which includes all other uses, 15,000 hundredweight, value under the license on the Chicago butter market, say \$1.10 per hundredweight, or \$16,500.

Adding the above amounts, distributors are obligated to pay \$106,125 for all milk delivered by producers.

Next determine the value of the excess milk. Suppose that of the 60,000 hundredweight delivered by producers, 85 percent, or 51,000 hundredweight, represents milk within the base amount, and 15 percent, or 9,000 hundredweight, is excess milk, which according to the license receives the class III price. Assuming that price is \$1.10, the value of the excess milk would be \$9,900. This \$9,900 is then subtracted from the \$106,125, leaving a net of \$96,225—the value of the base milk.

To obtain the price per hundredweight payable to producers for base milk, divide \$96,225 by 51,000, which gives \$1.88—the price to be paid by distributors to producers for each hundredweight of base milk they have delivered. This price, sometimes called the “blended price”, varies from month to month according to the proportion of total base milk delivered which is sold as class I and class II.

Under the license all producers get an equal price per hundredweight for base milk. Also, all producers get an equal price per hundredweight for excess milk. An individual producer's average price depends on how much milk he delivers in excess of his base.

4. To guard against failure or undue delay in payments for milk

Distributors are required to establish financial responsibility through bonds or periodic advance deposits.

5. To check the accuracy of tests and weights made by distributors on milk delivered by producers

Where cooperative associations have not already provided this service for their members, the Market Administrator checks dis-

tributors' tests and weights of milk. Under authority of the Secretary of Agriculture, he has access to the books and records of distributors for this purpose, as well as to verify receipts and sales of milk or to compile general market information—all being confidential in respect to individual companies or individuals.

6. To prevent dumping of cream from other markets on the Grand Rapids market

Distributors in other markets are not allowed to dump cream on the Grand Rapids market at cut rates. That is, the license provides that distributors who do not sell milk for consumption in the sales area may not sell cream to Grand Rapids distributors for use in the sales area for less than the prevailing price in the region where it is processed, plus reasonable transportation charges.

7. To provide, through a milk industry or advisory board, a means whereby a broad local point of view may be ascertained, as assistance to the Market Administrator and the Agricultural Adjustment Administration

Appointment of a milk industry board, under the terms of the license, is optional with the Secretary of Agriculture. A milk industry board functions under the Detroit license.

Distributors Who Are Also Producers

Producer-distributors are not a relatively large factor in the Grand Rapids market. Yet, obviously, for milk which such persons produce themselves, they cannot operate under the method of payment and accounting that is required for milk purchased from wholesale shippers. Milk produced by distributors, therefore, is exempt from most of the requirements of the license, in an amount up to their established bases of sales and uses to their customers. Producer-distributors do, however, make reports of their sales and uses to the Market Administrator. Milk which they sell above their base, as well as

any milk which they buy from other producers, and all bulk milk which they sell to other distributors, is subject to the requirements of the license.

Operating Costs

To pay the expense of the supervisory services of the Market Administrator, the producers' groups agreed to a maximum deduction of 2 cents per 100 pounds of milk, and this provision is in the license. Producer-distributors also pay 2 cents per hundredweight of milk they produce.

Producers who do not get from their association such market services as check testing, verifying of weights, market information, and guarantee against default in payments due them, receive such protection, under the license in return for uniform deductions of not to exceed 3 cents per hundredweight of milk. This fund is kept separate by the Market Administrator for such purposes only and if it reaches a total more than sufficient for these services, he may waive its collection in any period, or may prorate the balance among those who furnished the fund.

Copies of the license and answers to questions about it will be available at the office of the Market Administrator. It is his duty to explain the license at Grand Rapids and the other licenses outside of Detroit, and to supervise them, but he has no authority to make any changes in the provisions of any licenses.

Certain slight differences in price and deductions for the maintenance of market supervision and services occur in the other milk licenses when compared to the Grand Rapids license, but these points will be made clear upon application to the Market Administrator.

